CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

October 20, 2009

The Capital Projects and Bond Oversight Committee met on Tuesday, October 20, 2009, at 1:00 PM, in Room 169 of the Capitol Annex. Senator Bob Leeper, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Bob Leeper, Co-Chair; Representative Susan Westrom, Co-Chair; Senators Tom Buford, Julian M. Carroll, and Elizabeth Tori; Representatives Robert R. Damron, Steven Rudy, and Jim Wayne.

Guests: Tom Howard, and Brett Antle, Office of Financial Management; John Hicks, Governor's Office for Policy and Management; Sam Ruth, Department for Facilities and Support Services; Charles Bush, Division of Real Properties; Sandy Williams and John Covington, Kentucky Infrastructure Authority; Rick McQuady and John Herald, Kentucky Housing Corporation; and Jim Ackinson, Kentucky Higher Education Student Loan Corporation.

LRC Staff: Don Mullis, Kristi Culpepper, and Samantha Gange.

Representative Rudy made a motion to approve the minutes of the September 15, 2009 meeting. The motion was seconded by Senator Carroll and approved by voice vote.

Senator Leeper called on Don Mullis, Committee Staff Administrator, to discuss correspondence and information items. Mr. Mullis said members' folders contained several correspondence items: the quarterly status reports from the Finance and Administration Cabinet, the universities that manage their own construction projects, and the Administrative Office of the Courts (AOC); correspondence to the Finance and Administration Cabinet relating to the Kentucky Housing Corporation (KHC) proposed conduit bond issue; correspondence from the Division of Real Properties regarding the 2008-2009 Biannual Lease Law Compliance audit; and correspondence from the Finance and Administration Cabinet regarding a report to use the Construction Management-at-Risk project delivery method for the Northpoint Training Center project.

Next Mr. Mullis noted that members' folders also contained several information items: the Annual Report of Bonds Outstanding; the Semi-Annual Report of the Kentucky Asset/Liability Commission; a memo from Kristi Culpepper, Committee Analyst, regarding Kentucky's Bonded Indebtedness; Economic Development Bond

(EDB) report for fiscal year ending June 30, 2009; Auditor Report on Procedural Compliance with KRS 45A.840 – 45A.879; a letter from the Kentucky Infrastructure Authority (KIA) to the City of Nortonville regarding a Fund C loan; and the staff and bond market updates.

Representative Damron asked if the increase in appropriation-supported debt in the Annual Report of Bonds Outstanding included debt issued and serviced by state universities. Mr. Mullis responded that it did.

Representative Damron then asked, in reference to the Semi-Annual Report of the Kentucky Asset/Liability Commission, how much money Kentucky could potentially lose on interest rate swap agreements if the credit rating of National Guaranty Public Finance Corporation (National) is downgraded. He noted that various swap providers and bond insurance companies have been downgraded, which has caused problems with derivatives contracts. Representative Damron said that one of the problems the Committee had with the University of Kentucky's (UK) financing [of Samaritan Hospital] was that the Kentucky Association of Counties would have to pass on any additional costs associated with the transaction to UK. Tom Howard, Executive Director, Office of Financial Management (OFM) responded that the market valuation on the swap arrangements as of September 30, 2009, was approximately $23 million against the Commonwealth, but this is an unrealized loss. He said that OFM is working with the swap provider to identify refunding opportunities where the state may be able to purchase the outstanding notes [associated with the swap agreements] at a substantial discount due to concerns about the bond insurer. This may mitigate the effect of the loss, depending on the amount of notes that can be tendered and at what price. He said that they examined the transaction over a year ago and received some adverse tax opinions, but OFM is reevaluating the current tax opinion given some recent transactions in the marketplace. Mr. Howard said the transaction continues to have the lowest cost of financing relative to other long-term debt. He said the swaps are cost of funds swaps, so there is no basis risk, and that if interest rates rise, the value of the swaps could quickly move in the state's favor. Mr. Howard noted that the issue is the potential termination trigger of National's rating being downgraded below its present level.

Representative Damron asked OFM to notify the Committee if the swap agreements are terminated. Mr. Howard responded affirmatively.

Representative Damron asked if the termination of the swap at a loss would reduce the state's investment income. Mr. Howard responded that the swaps are not on the asset side of the balance sheet, but on the liability side, and that the termination of the swaps would affect the amount of appropriated debt service for a given year. He said that he thought the termination of the swaps would have minimal impact.

Representative Damron commented that Committee members as well as many in the audience are interested in the impact of the swap agreements on the state's appropriation-supported debt service. He asked if the swap could potentially impact the amount of new debt that the state could issue. Mr. Howard replied that it depends on whether the notes can be tendered and at what price. [He said that whatever the gain or loss is on the transaction, it would be amortized over the term of the refunding issue, so the transaction would have a modest impact either way.]

Representative Damron asked what the state's exposure on the transaction would be in the current market. Mr. Howard replied that the termination value on the swap is approximately $23 million, but the purchase price on the notes [through a tender offer] could be as low as 80 cents on the dollar. He said that the tender price on the outstanding notes could offset the termination payments on the swaps, but it is unclear at this point.

Senator Carroll said he was interested in the amount of authorized but unissued debt and how the General Assembly's previous debt authorizations will affect the state's outstanding appropriation-supported debt. Mr. Mullis responded that the information is included in Ms. Culpepper's memorandum, but that staff will provide it in a simpler format. He added that the information Representative Damron requested regarding university debt is also included in the memorandum.

Representative Damron commented that it was difficult to distinguish what portion of the debt service is paid from taxpayer dollars and what portion of the debt service is paid from other sources. He said that policymakers need to look at how both factors impact the state's budget. Representative Damron further commented that when university debt is consolidated into the total amount of outstanding debt, it is not accurate to say that the state is responsible for repaying the entire amount.

Representative Westrom asked what the status was on the letter sent to the City of Nortonville (City) in Hopkins County regarding the KIA Fund C loan arrearages. John Covington, Executive Director, KIA, came to the table to discuss the loan status. Mr. Covington said that KIA has just been informed that the City has passed a rate increase and is now in compliance with the requirements of the loan.

Next Senator Leeper recognized John Hicks, Deputy Director, Governor's Office for Policy and Management, and Sam Ruth, Commissioner of Facilities and Support Services, Finance and Administration Cabinet. Mr. Hicks reported that the Finance and Administration Cabinet has approved an unbudgeted project for the Labor Cabinet (Cabinet), Department of Workplace Standards, to purchase an item of equipment. The project scope is $400,000 (50% federal funds, 50% restricted funds) and provides for the purchase of an Incident Response Command Center/Mobile Outreach Vehicle. The vehicle will serve as the Cabinet's command center as it investigates incidents and collects information.

Senator Carroll made a motion to approve the unbudgeted project. The motion was seconded by Representative Westrom and passed unanimously by roll call vote.

Next Mr. Hicks reported that the Finance and Administration Cabinet has approved an unbudgeted project for the Education and Workplace Development Cabinet (Cabinet), Department of Workplace Investment, to purchase a new Interactive Voice Response System. The project scope is $1,600,000 (100% federal funds) and the new system will enable unemployment insurance claimants to use a telephone to file an initial claim, inquire about their benefits, and request a continued benefits check.

In response to questions from Representative Damron, Mr. Hicks said that in addition to the new automated system, the Cabinet will still have live people to answer phones. He also said that the Cabinet has had an unprecedented level of demand and the new system is needed because of the high increase in calls.

Senator Carroll made a motion to approve the unbudgeted project. The motion was seconded by Senator Tori and passed unanimously by roll call vote.

Mr. Hicks then reported a $1,036,606 allocation from the Finance and Administration Cabinet Maintenance Pool for the Central Lab Roof Replacement project. Mr. Ruth said that the Central Lab Building was built in 1994 and currently houses labs for the Kentucky State Police, the Energy and Environment Cabinet, and Family Services, as well as extensive file and artifact storage for the Kentucky Historical Society. The current roof has been repaired several times over the past five years and is no longer repairable.

In response to a question from Representative Wayne, Mr. Ruth said that the original roof had a 10-year warranty and the new roof will have a 20-year warranty.

Next Mr. Hicks reported a $2,189,100 scope increase (100% federal funds) for the Kentucky State University (KSU) Center for Families and Children. The increase in funding is provided by the U.S. Department of Agriculture's Land Grant program and will allow more square footage to accommodate 80 children, a larger playground area, and LEED silver design. If approved, the revised project scope would be $4,211,100.

Senator Leeper asked who would be responsible for the maintenance and operation of the building. Mr. Hicks responded that KSU would be responsible.

Senator Carroll made a motion to approve the scope increase for KSU. The motion was seconded by Senator Tori and approved unanimously by roll call vote.

Senator Leeper called on Charles Bush, Director, Division of Real Properties, Finance and Administration Cabinet, to report several items relating to leases. Mr. Bush first discussed a report of changes in square footage for 10 state leases for the period April through June 2009. The lease modifications were less than $50,000 and did not require Committee action.

Next Mr. Bush reported a lease modification for the Cabinet for Health and Family Services (Cabinet) in Pike County (PR-3626). The Cabinet has requested improvements to its facility to improve the security. The improvements will consist of replacement of various locksets and cylinders, and installation of electronic push button locksets and lock guards. The cost of the improvement is $5,150 and will be amortized over the remaining lease term (through June 30, 2016).

Lastly Mr. Bush reported 25 emergency leases. Mr. Bush said that the Finance and Administration Cabinet has declared an emergency under KRS 56.805 to allow for procurement of temporary storm debris storage sites for the Transportation Cabinet. No action is required for emergency leases.

In response to a question from Senator Carroll, Mr. Bush said that of the 51 storm debris storage sites, the Transportation Cabinet has made final payments on 40 of the sites.

Senator Leeper called on Sandy Williams, Financial Analyst, KIA, to present 28 loan requests. Ms. Williams said that the first loan request was an $11,000,000 Fund A loan for the City of Maysville in Mason County for the Maysville Combined Sewer Elimination project. The loan term is 20 years with an interest rate of two percent.

The second loan request was a $500,000 Fund A loan for the City of Maysville in Mason County for the Washington Area Improvements project. The loan term is 20 years with an interest rate of two percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The third loan request was a $3,420,238 Fund A loan for the Louisville and Jefferson County Metropolitan Sewer District for the River Road Interceptor project. The loan term is 20 years with an interest rate of two percent.

The fourth loan request was a $480,000 Fund A loan for the Louisville and Jefferson County Metropolitan Sewer District for the University LIVE sanitary sewer extension project. The loan term is 20 years with an interest rate of three percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

Senator Leeper asked why the engineering fees for the University LIVE project were so high. Ms. Williams said she would have to report this information back to the Committee.

In response to another question from Senator Leeper, Ms. Williams said that KIA has established deadlines for each project to be funded through the American Recovery and Reinvestment Act and all projects will meet the February 2010 construction contract start date.

The fifth loan request was a $5,000,000 Fund A loan for the Louisville and Jefferson County Metropolitan Sewer District for the Western Flood Pump Station Replacement project. The loan term is 20 years with an interest rate of three percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The sixth loan request was a $230,100 Fund A loan for the City of Prestonsburg in Floyd County for the West Prestonsburg Sewer Replacement project. The loan term is 20 years with an interest rate of one percent.

The seventh loan request was a $365,300 Fund A loan for the City of Prestonsburg in Floyd County for the Westminster Street Combined Sewer Separation project. The loan term is 20 years with an interest rate of one percent.

The eighth loan request was an $891,571 Fund A loan for the City of Prestonsburg in Floyd County to modify the existing Wastewater Treatment Plant. The loan term is 20 years with an interest rate of one percent. The funding for this loan comes from the American Recovery and Reinvestment Act and $803,000 will be used toward fulfilling Kentucky's Green Reserve requirement.

The ninth loan request was a $975,000 Fund A loan for the Electric Plant Board of the City of Mayfield in Graves County for the Red Duck Creek Interceptor Rehabilitation project. The loan term is 20 years with an interest rate of one percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The tenth loan request was an $800,000 Fund A loan for the City of Russellville in Logan County for the Wastewater Project #1. The loan term is 20 years with an interest rate of one percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The eleventh loan request was a $1,100,000 Fund A loan for the City of Calvert City in Marshall County for the Riverport Lift Station and Force Main project. The loan term is 20 years with an interest rate of three percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The twelfth loan request was a $300,000 Fund A loan for the City of Kuttawa in Lyon County for the replacement of an existing 80 gallon per-minute (GPM) pump station at full capacity with a 220 GPM duplex submersible pump station. The loan term is 20 years with an interest rate of three percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The thirteenth loan request was a $750,000 Fund A loan for the City of Sacramento in McLean County for the Gravity Sewer Phase I project. The loan term is 20 years with an interest rate of one percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The fourteenth loan request was a $1,150,000 Fund A loan for the City of Paintsville in Johnson County for the Package Treatment Plants Replacement project. The loan term is 20 years with an interest rate of one percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The fifteenth loan request was a $300,000 Fund A loan for the Grant County Sanitary Sewer District for Phase I of a Sanitary Sewer Extension project. The loan term is 20 years with an interest rate of three percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The sixteenth loan request was an $801,203 Fund A loan for the City of Morehead in Rowan County for the benefit of the Morehead Utility Plant Board for the Big Woods Area Sewer Line Extension project. The loan term is 20 years with an interest rate of one percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The seventeenth loan request was a $1,293,013 Fund A loan for the City of Morehead in Rowan County for the benefit of the Morehead Utility Plant Board for the Phase IV Inflow and Infiltration Reduction System Rehab project. The loan term is 20 years with an interest rate of one percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The eighteenth loan request was a $600,000 Fund A loan for the City of Winchester in Clark County for the construction of the Vaught Court Outfall Sewer project. The loan term is 20 years with an interest rate of two percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The nineteenth loan request was a $489,469 Fund A loan for the City of Falmouth in Pendleton County for the Pendleton County High School Extension project. The loan term is 20 years with an interest rate of one percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

Senator Tori asked how KIA determines the interest rates for the various loan programs. Ms. Williams said that KIA has three interest rates for the federally-funded loan programs. In order for a community to qualify for a three percent interest rate, it must have a median household income at or above 80 percent of that of the Commonwealth, $33,672 (based on the 2000 census). To qualify for a one percent interest rate, the community must have a median household income at or below 80 percent of that of the Commonwealth. If a community does not fall under either of those criteria's, a two percent interest rate is given. Additionally, a community that qualifies for the three percent interest rate can also receive a two percent interest rate if the project is regional or if the funds are being used to comply with a Consent Decree.

Senator Buford made a motion to approve the 19 Fund A loan requests. The motion was seconded by Senator Tori and passed unanimously by roll call vote.

The twentieth loan request was for an increase to a previously approved $338,997 Fund B loan for the City of Owingsville (City) in Bath County. The City requested a $458,252.57 (135%) increase to repay a Rural Development (RD) loan, which will result in over $490,000 in interest savings for the City versus the 40-year RD loan that would bear a higher interest rate. The new loan amount is $797,249.57. The loan term is 30 years with an interest rate of 0.40 percent.

The twenty-first loan request was a $564,835 Fund B loan for the City of Falmouth in Pendleton County for the Oak Haven Sewer Extension project. The loan term is 20 years with an interest rate of one percent.

The twenty-second loan request was a $1,772,429 Fund B loan for the City of Prestonsburg in Floyd County to modify the existing Wastewater Treatment Plant. The loan term is 20 years with an interest rate of one percent.

Representative Wayne asked if there was precedent for using a Fund B loan to repay non-KIA debt. Ms. Williams responded that KIA typically only offers funds for refinancing from other funding sources in extreme circumstances. The reason KIA provided the City of Owingsville (City) with funds to repay the RD loan was for economic benefits. She said that this Fund B loan increase will allow the City to offer an affordable rate structure to the industrial customers that will be served by the new wastewater treatment plant, hence keeping the businesses from moving out of the Bath County Industrial Park.

Representative Wayne asked if the Fund B loan increase was for the benefit of Custom Foods. Ms. Williams responded affirmatively.

Representative Wayne then asked if Custom Foods is still in existence and whether or not the company has ever filed bankruptcy. Ms. Williams said she would report the information back to the Committee.

Representative Damron commented that the loan increase would keep the Bath County Industrial Park from losing businesses and jobs.

Representative Damron asked if KIA could provide the Committee with the current balances in the Fund A, B, C, and F accounts. Ms. Williams said she would report the information back to the Committee.

Representative Rudy made a motion to approve the three Fund B loans. The motion was seconded by Senator Buford and approved unanimously by roll call vote.

Next Ms. Williams reported that the twenty-third loan request was a $1,800,000 Fund C loan for the City of Bardstown in Nelson County for the Bardstown-Nelson County Industrial Park Transmission project. The loan term is 20 years with an interest rate of three percent.

The twenty-fourth loan request was a $3,500,000 Fund C loan for the City of Bardstown in Nelson County for the Water Treatment Plant Clearwell Storage Tank and Filter Renovation project. The loan term is 20 years with an interest rate of three percent.

Representative Rudy made a motion to approve the two Fund C loans. The motion was seconded by Representative Westrom and passed unanimously by roll call vote.

The twenty-fifth loan request was a $683,200 Fund F loan for the City of Campton in Wolfe County for construction of a one million gallon per-day water treatment plant. The loan term is 20 years with an interest rate of one percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The twenty-sixth loan request was a $500,000 Fund F loan for Western Mason Water District in Mason County for the Germantown Water upgrade. The loan term is 20 years with a two percent interest rate. The funding for this loan comes from the American Recovery and Reinvestment Act.

The twenty-seventh loan request was an $805,000 Fund F loan for the City of Prestonsburg in Floyd County for the KY 114 System Emergency tie-in with the Magoffin County project. The loan term is 20 years with an interest rate of one percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The twenty-eighth loan request was an $800,000 Fund F loan for the Winchester Municipal Utilities through the City of Winchester in Clark County for construction of an

Elevated Storage Tank Rehabilitation project. The loan term is 20 years with an interest rate of two percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

Senator Carroll made a motion to approve the four Fund F loan requests. The motion was seconded by Senator Tori and passed unanimously by roll call vote.

Next Ms. Williams indicated that various coal and tobacco development grants authorized by the General Assembly were included in members' folders. Each project was authorized in a budget bill and no further Committee action was needed.

Senator Leeper called Mr. Howard and Brett Antle, Deputy Director, OFM, to the table. Mr. Antle first presented two new bond issues for the Kentucky Economic Development Finance Authority (KEDFA). The first new bond issue was for KEDFA Hospital Facilities Revenue Refunding and Improvement Bonds, Series 2009 (Saint Elizabeth Medical Center, Inc.). Proceeds from this conduit bond issue will 1) finance the acquisition, construction, installation, and equipping of healthcare facilities, including a new ambulatory care facility in Covington, Kentucky; and 2) Refund Hospital Facilities Revenue and Refunding Improvement Bonds, Series 2003 A, 2003 B, and 2003 C.

Representative Wayne made a motion to approve the KEDFA bond issue for St. Elizabeth Medical Center, Inc. The motion was seconded by Representative Damron and passed unanimously by roll call vote.

Mr. Antle said the second new bond issue was for KEDFA Hospital Revenue Bonds, Series 2009 (Owensboro Medical Health System, Inc.). Proceeds from this conduit bond issue will 1) provide funding for the construction of a replacement hospital in Owensboro, Kentucky; and 2) Refund Kentucky Health System Variable Rate Revenue Bonds (Owensboro Mercy Health System, Inc.) Auction Rate Securities, 2001 Series A, 2001 Series B, and 2001 Series C.

Representative Wayne commented that by locating the hospital on the outskirts of Owensboro, as opposed to downtown, will deplete downtown property values.

Representative Damron made a motion to approve the KEDFA bond issue for Owensboro Medical Health System, Inc. The motion was seconded by Senator Buford and passed unanimously by roll call vote.

Next Mr. Antle presented a new bond issue for State Property and Buildings Commission (SPBC) Revenue Bonds, Project No. 96 Series A, B, and C in a principal amount not to exceed $425,000,000. Proceeds from this bond issue will provide permanent financing for projects authorized in HB 267 (2004-06 Budget), HB 380 (2006-08 Budget), HB 1 (2007 2nd Special Session), and HB 406 (2008-10 Budget).

Representative Damron asked if the issuance would allow OFM to do all Build America Bonds if the market makes that more advantageous. Mr. Howard responded affirmatively.

In response to another question from Representative Damron, Mr. Howard said OFM has flexibility with how they can market this bond issue.

Representative Damron made a motion to approve the new SPBC bond issue. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Next Mr. Antle presented a new bond issue for Kentucky Housing Corporation (KHC) Multifamily Housing Revenue Bonds, Series 2009 (Country Place Apartments). Proceeds from this conduit bond issue will be used to finance the acquisition, rehabilitation, and equipping of the 150-unit Country Place Apartments in Hebron, Kentucky. All of the units included in the project will be reserved for families earning 60 percent or less of the area median income. [This bond issue was presented at the September 2009 meeting and the Committee deferred action on the project until KHC responded to Committee members' questions about transaction participants and various policy issues.]

Representative Wayne commented that all his concerns regarding the KHC bond issue have been addressed.

Representative Rudy made a motion to approve the new bond issue for KHC. The motion was seconded by Senator Buford and passed unanimously by roll call vote.

Senator Leeper asked Rick McQuady, Chief Executive Officer, KHC, and John Herald, Chief Financial Officer, KHC, to come forward to discuss a possible new housing financing program that was not on the agenda. Mr. McQuady said that on October 19, 2009, the Obama administration announced a new temporary bond purchase and liquidity program to assist state housing finance agencies (HFAs). Under this new program, the Treasury will purchase Fannie Mae and Freddie Mac securities backed by new housing revenue bonds issued by state housing finance agencies. State HFAs will request funds pursuant to the allocation formulas used for determining the HFAs extra private activity bond cap under the Housing and Economic Recovery Act of 2008. According to the program, 60 percent of the new bonds will be purchased by the federal government and 40 percent must be purchased in the private market.

Mr. McQuady said because he was just informed of this new program yesterday, he did not have all the details. He said he did know that as a result of this program, KHC will be able to offer lower-rate mortgages to Kentucky families. He also said that because 60 percent of the bonds that will be allocated to KHC must be issued by December 31, 2009, KHC needs to be able to have flexibility in order to go to market as the program is launched. Mr. McQuady asked the Committee to allow KHC to take the actions necessary to participate in the new program. He said KHC will be bringing the issue to the Board of Directors to approve later in the week.

Representative Wayne asked what the default rate was for KHC mortgages compared to the private market. Mr. McQuady said that all of KHC loans are 30-year fixed rate loans and KHC does not participate in predatory lending practices. About a year ago, when the extent of the predatory lending in the market was first realized, the private housing market experienced a dramatic increase in 90-day delinquency rates as well as foreclosure rates, while KHC's foreclosure and delinquency rates remained as they had over the past five years. KHC's delinquency rate remained at about three percent and the foreclosure rate at two percent, respectively. However, as a result of the recent increase in unemployment in Kentucky, KHC's delinquency rates have risen to five percent and foreclosure rates to three percent.

In response to questions from Senator Carroll, Mr. McQuady said KHC ensures borrowers demonstrate the ability to make payments on a second mortgage either through the $8,000 federal first-time homebuyer tax credit or through annual payments. He said KHC has not experienced any problems as a result of the second mortgage loans. Mr. McQuady said KHC encourages borrowers to pay the second mortgage with the tax credit as opposed to annual payments.

In response to a question from Representative Westrom, Mr. McQuady said the second mortgage is a six percent fixed rate loan for 10 years.

In response to a question from Senator Buford, Mr. McQuady said when KHC receives the details of the federal program it will determine whether or not (the program will work for Kentucky families) to participate.

Senator Buford asked KHC to report to the Co-Chairs of the Committee the final details prior to participating in the new program. Mr. McQuady said KHC would report to the Committee prior to participating.

In response to a question from Senator Carroll, Mr. McQuady said he did not include an amount of bonds that can be issued since the federal government has not yet provided the details.

Senator Buford made a motion to approve KHC to have the ability to take actions necessary to participate in the New-Issue Bond Program. The Committee's approval is conditioned upon KHC reporting transaction details to the Committee as KHC moves forward on any potential bond issues related to this program. Additionally, the Committee's approval is conditioned upon KHC receiving all of the necessary approvals from the KHC Board of Directors and other state entities. The motion was seconded by Representative Wayne and passed unanimously by roll call vote.

Next Mr. Antle presented a new bond issue for the University of Kentucky (UK) General Receipts Bonds, 2009 Series B – Build America Bonds – Direct Payment in a par amount of $100,765,000. Proceeds from this bond issue will provide funding for the Expand Patient Care Facility – Hospital Phase III, as authorized in HB 4 (2009 Special Session).

Senator Buford made a motion to approve the new bond issue for UK. The motion was seconded by Representative Damron and passed unanimously by roll call vote.

Mr. Antle then provided a follow-up report for the KHC Housing Revenue Bonds 2009 Series B (Non-AMT), in the amount of $60,000,000. Proceeds from this bond issue will refund outstanding KHC obligations and make funds available to finance mortgages. No Committee action was needed.

Mr. Howard said the next item on the agenda would be best presented by Jim Ackinson, Chief Financial Officer, Kentucky Higher Education Student Loan Corporation (KHESLC). Mr. Ackinson said KHESLC is requesting an extension on the Insured Student Loans Revenue Bonds, 2008 Series A (approved by the Committee in August 2008) for the purpose of providing KHESLC with bridge financing to originate student loans under the Federal Family Education Loan Program (FFELP), in conjunction with the Federal Loan Participation Purchase Program. Mr. Ackinson said that the State Investment Commission has agreed to extend the final maturity from November 15, 2009 to February 15, 2010. The amount of principal outstanding under the financing will be reduced from the original $50 million to $24.9 million. A minor portion of the bonds ($100,000) will remain outstanding until November 2011 in order for the General Bond Resolution to remain available as a future financing resource.

Senator Leeper asked what impact the proposed federal legislation to eliminate FFELP would have on KHESLC. Mr. Ackinson said the effect would be dramatic, as it would eventually eliminate KHESLC and replace it with direct lending through the federal Department of Education.

In response to a question from Senator Buford, Mr. Ackinson said KHESLC is hopeful to have a “carve-out” role if the federal legislation is passed, but nothing is guaranteed and KHESLC could be completely eliminated.

Senator Carroll made a motion to approve the extension of the final maturity on the KHESLC bond issue. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Next Mr. Antle reported 14 new bond issues with the School Facilities Construction Commission (SFCC) debt participation for Ballard County, Barbourville Independent (Knox County), Boyd County, Bracken County, Corbin Independent (Whitley County), Erlanger-Elsmere Independent (Kenton County), Hancock County, Kentucky Interlocal School Transportation Association Special Issuer Loan Program, LaRue County, Lyon County, Martin County, Paintsville Independent (Johnson County), Raceland-Worthington Independent (Greenup County), and Spencer County.

Representative Rudy made a motion to approve the 14 new SFCC bond issues. The motion was seconded by Senator Tori and passed unanimously by roll call vote.

Senator Leeper asked Mr. Mullis to report the new local school bond issues. Mr. Mullis said there were four new school district bond issues with 100 percent local debt support for Fayette County, Jefferson County, Logan County, and Oldham County. All disclosure information has been filed. No Committee action was needed.

With there being no further business, Senator Buford made a motion to adjourn the meeting. The motion was seconded by Representative Rudy and the meeting adjourned at 2:45 p.m.